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# **FINANCE AND ADMINISTRATION CABINET AGENCY GUIDANCE FOR CASH HANDLING**

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## **INTRODUCTION**

The Commonwealth of Kentucky requires that all monies received by agencies, departments, and institutions be promptly transmitted to the Kentucky State Treasury for deposit or promptly deposited in a state depository bank account (See KRS 41.070).

This document defines the Finance and Administration Cabinet's (FAC) statewide internal control procedures, which can be used by agencies to develop their own procedures related to handling and safeguarding state monies.

## **SEGREGATION OF DUTIES**

Strict control should be maintained during the processing of cash receipts to ensure proper accountability. The term "cash" includes currency, coins, checks, money orders, etc. This will enable agencies to address the following key duties:

- Responsibilities and duties involving cash receipts should be separated among different employees with respect to authorization, processing and recording, receiving funds, reviewing and monitoring, and the custodial functions, to ensure no one employee or group of employees has total control over the cash handling process.
- Duties should be assigned systematically to a number of employees, when applicable, to ensure that effective checks and balances exist.
- The responsibility for opening mail should be assigned to employees who have no responsibilities for or access to files or documents pertaining to accounts receivable or cash accounts.
- Bank accounts should be reconciled by employees who have no responsibilities for cash receipts, disbursements, or custody.

## **TIMELY DEPOSITS**

State agencies, departments, institutions, boards, commissions and other public entities subject to KRS 41.070 should deposit cash, checks, and other negotiable instruments into the State Treasury or a state depository bank account on the same day. A reasonable, longer period for the deposit of particularly identified funds or categories of funds may be acceptable if reviewed and approved by FAC. FAC and/or the Kentucky State Treasury may request such documentation on a periodic basis.

Examples of situations that could be considered legitimate reasons for not depositing funds within three business days include:

- Receipts are collected in a field office or by field staff in locations that are not near a Temporary Depository.
- Aggregate receipts on hand total less than \$500.
- The entity has severely limited staff resources, such as boards or commissions with only one or two staff members.
- Volume of receipts received during peak times is so great that existing staff cannot meet the minimum requirements.

## **RESTRICTIVELY ENDORSEMENT OF CHECKS AND NEGOTIABLE INSTRUMENTS**

As a general rule, agencies should restrictively endorse checks and negotiable instruments upon receipt, before forwarding the checks or negotiable instruments to State Treasury for deposit or depositing in a state bank account. A restrictive endorsement on checks and negotiable instruments deters the potential of theft or other loss. FAC recognizes that agencies may receive checks sent to them erroneously. These checks should not be endorsed, rather they should be sent back to the sender.

## **RECORDING OF CASH RECEIPT TRANSACTIONS**

Agencies should promptly record cash receipt transactions so they can make timely decisions. Agencies should at a minimum ensure that:

- The duties of receiving cash and preparing the initial documentation should be segregated from the duties of making entries into the agencies' accounting system and/or Management Administrative and Reporting System (MARS), posting of cash collections and making deposits.
- Pre-numbered remittance advices and mail logs should be used to document over-the-counter collections and cash received through the mail. The use of mechanical receipting devices, such as cash registers, which accomplish the same purpose as pre-numbered remittance advices, is acceptable.
- Assign the responsibility for issuing pre-numbered remittance advices to a limited number of employees.
- Cash should be maintained in a safe or other locked storage device until deposited.

## **FINANCIAL REPORTING AND RECONCILIATION**

To ensure internal controls over cash receipts, management should perform reconciliations and independent supervisory reviews over the cash receipts process. Agencies should conduct some or all of the following periodic reconciliations:

- Someone independent of the cash receipt process should summarize cash receipts. This summary should be compared to the State Treasury deposits to ensure that all collections are deposited in tact. Reconciliation of cash receipts into MARS against an agency's internal accounting system can also be performed.
- Someone independent of the cash receipt function should reconcile the mail log where cash and receipts are initially received, to the daily cash and receipts activity. Subsequently, a comparison of actual currency and coins deposited with actual currency and coins received should be conducted.
- Monies received on prepaid accounts should be reconciled with deposits and posting to the accounting records.

## **SAFEGUARDING CASH RECEIPTS**

Agencies should establish physical control to secure and safeguard cash, checks, and other negotiable instruments received. At a minimum:

- Cash, checks and other negotiable instruments, not deposited or processed at the end of the day, should be placed in an area secured by some form of locking device, such as a safe, vault, or locking file cabinet.
- Cash, checks, and mail containing related receipts should not be left unattended during the day. They should be locked anytime the clerk leaves his/her workstation, when appropriate.
- When appropriate, at least two people should accompany cash at all times.

- A dual control storage device requiring two individuals to open the device is recommended.
- Access to safes, vaults, or other security devices should be restricted to personnel whose job duties would require such access.
- Management should periodically count the cash on hand and compare it to the cash receipt tickets.

## **AGENCY INTERNAL PROCEDURES ON CASH HANDLING**

This document will provide a basis for agencies when implementing internal controls unique to their cash handling process. However, each agency should establish and maintain written internal procedures that provide for adequate internal controls to ensure that all monies received are properly receipted, safeguarded, deposited, and recorded in the MARS. Agencies can implement stricter internal controls. The FAC and Kentucky State Treasury may review an agency's internal policies to ensure the existence of adequate internal controls.

## **SUSPECTED LOSS OF PUBLIC FUNDS**

In the event of the suspected loss of public funds, it is important that agencies follow the appropriate procedures outlined below.

- Appropriate agency personnel, not involved in the suspected loss, should be notified prior to contacting outside agencies.
- The Secretary of the FAC or his designee should be notified within 24 hours after discovery of the suspected loss, when applicable. If the suspected loss is discovered on a weekend or holiday, the Secretary of the FAC or his designee should be notified the next business day.
- Outside law enforcement or investigative agencies may be notified after discussing with appropriate agency personnel and FAC.

## **RESPONSIBLE PARTIES**

The agency head or their designee should be responsible for ensuring that cash handling procedures are implemented. This document can serve as a base from which to develop an adequate framework for handling cash.